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FARM FINANCIAL CRISIS
Real, Imagined or On the Way?

By
Allan E. Lines
Professor and Extension Economist
Department of Agricultural, Environmental and Development Economics
The Ohio State University

The evidence argues against a "clear and present danger.". Clearly though, some producers are experiencing cash flow problems. Others, on the other hand, are able to buy needed and/or wanted land and equipment with equity and/or borrowed capital. Yes, there are regional pockets of distress (in and about North Dakota and Texas) and producers of some commodities (hogs and beef) are experiencing financial difficulty. However, farm financial data available from the USDA present an overwhelming picture of financial strength for the nation and Ohio. The next two years, however, is another story.

THE FARM BUSINESS BALANCE SHEET: The U.S. farm balance sheet is very strong. Total assets are expected to be valued at $1.13 trillion dollars on January 1, 1999, up by over $200 billion during the past five years. The Ohio farm balance sheet demonstrates that same strength and growth, with assets valued at an estimated record $37 billion, an increase of nearly $10 billion during the same period. Farm debt has increased, but at a slower rate than asset value. Debt on U.S. farms has increased to $170, up $30 billion during the past five years, much less than the increase in asset value. Ohio producers currently have about $4 billion borrowed, up $1 billion in five years. The net worth of U.S. farm businesses is estimated to be a record $957 billion, up just short of $190 billion during the past five years. Ohio's farm business net worth is estimated to be a record $33 billion, up nearly $9 billion during the same period. The aggregate U.S. farm business debt-to-asset ratio is a very safe 15 percent. Ohio's farms, on average, are less levered at about 11 percent.

FARM NET CASH INCOME: 1998 U.S. farm net cash income is projected to be $56 billion, down from last year's record $61 billion, but equal to the previous five year average. There is some suggestion in the poplar press that large commercial farms are likely to be under more stress because of higher debt loads. That assertion is highly unlikely. On large farms ($250,000 gross or more) '98 net cash income is expected to be 30 percent more than the previous five year average. The Ohio 1998 farm net cash income is estimated at $1.5 billion, down from last year's record $1.6 billion, and average for the previous five years.

DEBT SERVICE RATIO: A good indicator of financial stress on farms is the debt service ratio, a liquidity ratio that measures the number of times the farm business could pay its principle and interest due from cash flow, if necessary. A safe ratio is about two. This number hasn't fallen below two during the past five years and is estimated at 2.7 for the U.S. in 1998. Ohio farms, in general, are in better shape. The Ohio ratio hasn't fallen below 2.5 during the past five year's and is estimated to be 3.6 for 1998.

CASH GRAIN AND HOG FARMS: Low corn, soybean, wheat, and hog prices suggest that grain and hog farms may be experiencing more financial difficulty that other types of farms. This may be true for hog farms but is likely for grain farms. 1998 net cash income on grain farms is projected to be $12 billion, off sharply from last year's record $16 billion, but average for the past five years. On hog farms, however, net cash is projected to be down 50 percent from '96 and '97 and 25 percent less than the five-year average.

NEXT YEAR AND THE YEAR AFTER: If average corn, bean and hog prices don't improve for the '99 crop or for the '99 calendar year (and they're not expected to) the economic climate on U.S. and Ohio farms could deteriorate rapidly. Land values would likely begin to fall, weakening balance sheets. 1999 U.S. farm net cash will likely to decline by five to six billion dollars, reducing debt service capacity. It's unlikely Uncle Sam will provide another emergency package. Be ready, the next two years could be painful. Prepare for this expected downturn in the farm economy by reducing debt and controlling costs.